

Washington State Unemployment
Insurance Task Force Meeting
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Outline of Presentation

- Possible Objectives of UI Reform in Washington
- UI costs in Washington
- UI benefits and employer costs
- Comparing Washington with other states
- Repeat use of benefits in Washington
- Specific task force questions

Possible Objectives of UI Reform in Washington

- Cost restraint – improved competitiveness vis-à-vis other states
- Improved equity in provision of UI benefits
- Improved equity in setting UI tax rates for individual employers

Task Force Authorizing Language

1. Reducing costs to foster a competitive business climate
2. Adjust benefits to make reasonable improvements in benefit equity

UI Costs in Washington

Washington and U.S., Costs of Regular UI: 1995-2004 Averages

	United States	Washington	Wash./ U.S.
Taxes/Payroll %	0.66	1.26	1.91
Benefits/Payroll%	0.76	1.40	1.84
(b/u) – reciprocity rate	.326	.429	1.32
(wb/ww) - replacement rate	.346	.413	1.20
TUR - unemployment rate	5.07	5.98	1.18

Based on data from OWS and BLS,
U.S. Department of Labor

Cost Calculations for 2004

	Washington	United States
(1) Contributions (\$billions)	1.335	31.043
(2) Taxable Payroll (\$billions)	48.415	1,156.4
(3) Total Payroll (\$billions)	80.128	3,996.6
(4) Cont./payroll = ((1)/(3))%	1.645	.777
(5) Cont./taxable payroll = ((1)/(2))%	2.757	2.684
(6) Employment (millions)	2.069	102.107
(7) Payroll/Employee = (3)/(6)	\$38,728	\$39,141
(8) Taxable Payroll/Employee = (2)/(6)	\$23,400	\$11,325

Alternative Calculation 1, 2004 - Cost at Taxable Wage Base

	Washington	U.S. - 51	Wash./U.S. Ratio
(1) Avg. Tax Rate %	2.757	2.684	
(2) Tax Base	\$30,500	\$10,866	
(3) Cost per employee at tax base = (1)*(2)	\$840	\$292	2.88
(4) Taxable payroll per employee	\$23,400	\$11,325	
(5) Cost per employee = (1) * (4)	\$645	\$304	2.12

Alternative Calculation 2, 2004 – contrib. & benefits per employee

	Washington	U.S. - 51	Wash./ U.S. Ratio
(1) Contributions (\$billions)	1.335	31.043	
(2) Benefits (\$billions)	.986	32.117	
(3) Employment (millions)	2.069	102.107	
(4) Contributions per employee ((1)/(3))	\$645	\$304	2.12
(5) Benefits per employee ((2)/(3))	\$476	\$315	1.51

2004 Cost Calculations - Summary

- (Contributions/payroll) %
 - Washington/U.S. = 2.12
- Contributions/employee
 - Washington/U.S. = 2.12
- Contribution at taxable wage base
 - Washington/U.S. = 2.88
 - Exaggerates average Washington/U.S. differential because average taxable wage per employee was \$23,400, not \$30,500
- UI benefits/employee
 - Washington/U.S. = 1.51
 - Volatile because benefit payouts are volatile

UI benefits and employer costs

The benefit/cost linkage

- Employer costs over the long run are determined mainly by benefit payouts
- Benefit-cost linkage, ten years 1995-2004
 - $\text{Cost \%} = -.0869 + 0.9825 * \text{Benefit \%}$
 - 51 “states,” ten year averages
 - Cost% - contributions as a percent of total payroll
 - Benefit% - benefits as a percent of total payroll
 - Equations explains 93 percent of interstate variation in the average employer state contribution rate

Two issues for employers

- How much does UI cost (benefits as a percent of payroll)?
 - This involves the total amount of contributions
- How should UI costs be assigned to individual employers?
 - This is an employer equity issue and involves:
 - 1. Noncharges for quits and misconduct
 - 2. Ineffective charges against employers whose benefits exceed contributions
 - 3. Uncollectable charges from employers who cease operations

Determinants of Unemployment Insurance Benefit Costs

- The unemployment rate (or TUR)
- The UI reciprocity rate
(beneficiaries/unemployment or b/u)
- The replacement rate
(weekly benefits/weekly wages or wb/ww)

The UI Benefit Cost Equation

- $B\% = (b/u) * (wb/ww) * (TUR / (100 - TUR))$
- $B\%$ = benefit cost rate, benefits as a percent of payroll
- (b/u) = the recipiency rate
- (wb/ww) = the replacement rate
- TUR = the unemployment rate (a percent)
- Double effect of unemployment because it both raises benefit payouts and lowers taxes

Washington and U.S., Costs of Regular UI: 1995-2004 Averages

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Benefit generosity = reciprocity rate*replacement rate	.113	.177	1.57

Recent changes in generosity in Washington

- Freezing the maximum WBA at \$496 and reducing the maximum WBA to 63 percent of average wages
 - Will be in effect through 2007 or 2008
- Lowering the statutory replacement rate from 52% to 50% in 2004 (from 0.040 to 0.385 of average two high quarter wages)
- More proactive program administration since 2000 and associated disqualifications, e.g., increased use of job search reviews

Nonmonetary Disqualifications - 1

	Vol. Quit	Miscon- duct	Able & Avail.	Reporting Require.	Other Non-seps
2000	31,836	11,782	19,912	7,973	20,638
2001	37,302	13,393	33,686	15,049	24,624
2002	40,431	14,086	43,217	18,178	15,487
2003	37,468	12,790	39,584	16,089	13,540
2004	35,640	13,431	45,703	28,307	8,545

Nonmonetary Disqualifications - 2

- Total nonmonetary disqualifications 46 percent higher in 2004 (134,584) than in 2000 (92,141)
- More proactive administration now a strong feature of ESD oversight of eligibility
- Mandated study of voluntary quits (VQ) following Bill 6097 found the VQ denial rate about 12 percent higher in last six months of 2004 (compared to same period in 2003) due to new provisions (an increase from 61.1% to 72.9%)

Generosity in Washington: Conclusion

- Washington is considerably more generous than than the national average
- A high reciprocity rate and a high replacement rate both contribute to high generosity
- Generosity has been reduced recently through revised statutes and proactive program administration

Comparing Washington with Other States

Possible Criteria

- UI programs have many dimensions upon which they might be compared
- Benefit and tax provisions might enter a comparison
- This comparison will rely on benefit generosity

The approach

- Focus on generosity indices for states using data from 1995-2004
- Generosity index = recipiency rate times the replacement rate
- Generosity index selected because the recipiency rate and replacement rate can be controlled by a state through statutes and program administration but the unemployment rate is not under state control

The most generous states

State	Gen. Index	State	Gen. Index
1. Rhode Is.	.205	8. New Jersey	.169
2. Penn.	.195	9. Iowa	.168
3. Wisc.	.194	10. Oregon	.162
4. Mass.	.194	11. Conn.	.159
5. Vermont	.181	12. Alaska	.158
6. Wash.	.177	13. Minn.	.154
7. Hawaii	.175	U.S.	.113

The least generous states

State	Gen. Index	State	Gen. Index
51. Arizona	.056	44. Texas	.076
50. Louisiana	.060	43. Alabama	.077
49. New Hamp.	.062	42. Florida	.077
48. South Dakota	.062	41. Colorado	.078
47. Virginia	.072	40. Miss.	.078
46. New Mexico	.073	39. Oklahoma	.084
45. Georgia	.073	U.S.	.113

Washington and 5 States, Costs during 1995-2004

	TUR or Un. Rate	Reciency Rate	Replace- ment Rate	Generosity Index	Contrib. Rate - %
Colorado	4.20	.201	.388	.078	.349
Idaho	5.25	.353	.413	.146	.810
Iowa	3.49	.380	.443	.168	.585
Minn.	3.75	.360	.429	.154	.596
Oregon	6.23	.420	.384	.162	1.184
Wash.	5.98	.429	.413	.177	1.262

Six Less Generous States, Costs during 1995-2004

	TUR or Un. Rate	Reciency Rate	Replace- ment Rate	Generosity Index	Contrib. Rate - %
Florida	4.72	.210	.368	.077	.379
Georgia	4.44	.225	.326	.073	.285
Louis.	6.06	.193	.311	.060	.416
N. Hamp.	3.59	.188	.328	.061	.253
Texas	5.45	.215	.355	.076	.503
Virginia	3.63	.211	.340	.072	.249

Washington and 5 States: Benefit Provisions, 2005

	Index Max. WBA&%?	Statutory Rep. Rate	WBA Calc.	MBA/BPE Ratio	Pot.Dur. – Weeks
Colorado	Yes – 50%	.591	2Qtr	.2500	13-26
Idaho	Yes – 57%	.500	1 Qtr	.3077	10-26
Iowa	Yes – 53%	.565	1 Qtr	.3333	9-26
Minn.	Yes – 67%	.500	1 Qtr	.3333	10-26
Oregon	Yes – 64%	.650	4 Qtr	.3250	3-26
Wash.	Yes - 63%	.500	2 Qtr	.3333	12-26

Six Less Generous States: Benefit Provisions, 2005

	Index Max. WBA&%?	Statutory Rep. Rate	WBA Calc.	MBA/BPE Ratio	Pot.Dur. – Weeks
Florida	No	.500	1Qtr	.2500	9-26
Georgia	No	.542	2 Qtr	.2500	9-26
Louis.	Yes - 67%	.520	4 Qtr	.2700	21-26
N. Hamp.	No	.520	4 Qtr	.2650	26 Unif.
Texas	No	.520	1 Qtr	.2716	9-26
Virginia	No	.520	2 Qtr	.2600	12-26

Washington and 5 States: Tax Provisions, 2005

	Type of Exp. Rating	Index Tax Base & % ?	Tax Base 2005	Tax. Wage Share 2004	Contrib. 95-04 %
Colorado	Res. Ratio	No	\$10,000	.292	.349
Idaho	Res. Ratio	Yes 100%	\$28,000	.671	.810
Iowa	Ben. Ratio	Yes 67%	\$20,400	.527	.585
Minn.	Ben. Ratio	Yes 60%	\$23,000	.468	.596
Oregon	Ben. Ratio	Yes 80%	\$27,000	.607	1.184
Wash.	Ben. Ratio	Yes 80%	\$30,500	.604	1.262

Six Less Generous States: Tax Provisions, 2005

	Type of Exp. Rating	Index Tax Base & % ?	Tax Base 2005	Tax. Wage Share 2004	Contrib. 95-04 %
Florida	Ben. Ratio	No	\$7,000	.252	0.379
Georgia	Res. Ratio	No	\$8,500	.262	0.285
Louis.	Res. Ratio	No	\$7,000	.257	0.416
N.Hamp.	Res. Ratio	No	\$8,000	.233	0.253
Texas	Ben. Ratio	No	\$9,000	.260	0.503
Virginia	Ben. Ratio	No	\$8,000	.232	0.249

Repeat Use of Benefits in Washington

Three Analyses of Repeat Use

- Canada – Several analyses over the past decade
- Government Accountability Office study
 - Currently underway
 - Data, National Longitudinal for Youth (NLSY), not UI administrative data
 - Final report expected in late 2005
- ESD tabulations

ESD Tabulations

- All benefit years established between 1998 and 2004
- Potentially 7 years of benefit payments for an individual claimant
- Total of 990,708 first payments in individual benefit years

Distribution of the 990,708 claims: All seven years

	Number	Percentage
1 Year Only	642,847	64.9
2 Years	195,068	19.7
3 Years	73,610	7.4
4 Years	35,012	3.5
5 Years	20,697	2.1
6 Years	14,459	1.5
7 Years	9,015	0.9

Distribution of 185,465 claims from 1998: 1998 to 2004

	Number	Percentage
1 Year Only	71,262	38.4
2 Years	40,234	21.7
3 Years	24,122	13.0
4 Years	16,357	8.8
5 Years	12,733	6.9
6 Years	11,742	6.3
7 Years	9,015	4.9

Distribution of repeat claimants from 1998 claimant group

Year of Next Claim	Number	Percentage
1999	59,193	51.8
2000	23,351	20.4
2001	14,954	13.1
2002	8,415	7.4
2003	5,344	4.7
2004	2,946	2.6
Total	114,203	100.0

Consecutive years of repeat claims for 1998 claimant group - 1

Consecutive Years of Repeat Claims	Number	Continuation rate
All 1998 Claimants	185,465	
2 Years: 1998-1999	59,193	.319
3 Years: 1998-2000	46,334	.783
4 Years: 1998-2001	35,890	.774
5 Years: 1998-2002	27,003	.752
6 Years: 1998-2003	18,356	.680
7 Years: 1998-2004	9,015	.491

Continuation rate: probability of
collecting an added year

Consecutive years of repeat claims for 1998 claimant group - 2

Years of Repeat Claims	Number	Continuation rate
All 1998 Claimants	185, 465	
2 Years: 1998 and 2000	23,351	.126
3 Years: 1998, 2000-2001	15,669	.671
4 Years: 1998, 2000-2002	9,855	.629
5 Years: 1998, 2000-2003	5,560	.564
6 Years: 1998, 2000-2004	2,221	.399

Continuation rate: probability of
collecting an added year

Repeat use: Summary

1. More analysis is needed
 1. How much is paid to repeat users
 2. Industry and demographic mix of repeaters
 3. Exhaustion rate for repeaters
2. Repeat use related to total program costs
 1. Raises total costs of UI
3. Repeat use related to employee equity
 1. Increased costs from repeat use may adversely affect benefits of other claimants through effect on financing and/or restrictions on benefit eligibility

Repeat use: Canada - 1

- Two provisions to reduce costs of repeat use, operative during 1995-1999
- Intensity rule – lowered the replacement rate by 1% (e.g., from 55% to 54%) for each 20 weeks of benefits paid over the past five years – maximum reduction 5% (from 55% to 50%)
- Clawback provision – 30% clawback of benefits for families with income 25% above maximum insurable earnings and who collected at least 20 weeks of benefits during the past five years

Repeat use: Canada - 2

- Clawback saved substantial amounts
 - Monies did not return to UI trust fund
 - Monies used to reduce federal budget deficit
- Provisions ended in 2000
 - Provisions were unpopular among UI claimants
 - Affected many women from high income families

Repeat use – Minnesota Proposals of 2005 - 1

- Two proposals to UI advisory council
 - Purpose is to generate savings to finance an alternative base period program
- Proposal 1. People who collected in both years prior to current claim have a maximum WBA of 50% (not 67%) of statewide AWW

Repeat use – Minnesota

Proposals of 2005 - 2

- Proposal 2. People who collected 75% or more of their MBA (maximum benefit amount) in past two years prior to their current claim have their MBA/BPE percentage lowered from 33% to 30%
- Both proposals involve automated computations with data from prior two benefit years
- Minnesota advice – KIS – Keep it simple

Specific Task Force Questions

Socialized charges - 1

- Experience rating is “imperfect,” meaning that many charges are not assigned back to individual employers
- Three categories of socialized charges
 - Ineffective charges – benefit charges that exceed employer UI contributions
 - Noncharged benefits - charges not assigned to employers because they arose from employee actions
 - Inactive account charges – charges against employers who are no longer active
- Experience rating index (ERI) = effectively charged benefits/total benefits

Socialized charges - 2

- Washington has made substantial progress in reducing socialized charges
 - Marginal labor force attachment (MLFA) noncharges have been eliminated
 - Increased maximum tax rates have reduced ineffective charges
 - Vol. Quit noncharges have been reduced through reductions in eligibility

Socialized charges - 3

Year ending June 30th	Total Benefits (\$ mill.)	Ineffective charges	Noncharged benefits	Inactive account charges
2000	929.8	75.9	141.3	90.5
2001	996.7	120.0	172.6	110.8
2002	1,513.5	312.7	231.5	194.3
2003	1,499.4	234.4	257.6	160.7
2004	1,305.4	117.4	141.5	123.1

Socialized charges - 4

Year ending June 30th	Ineffective charge proportion	Noncharged proportion	Inactive charge proportion	Exp. Rating Index ERI
2000	.082	.152	.097	.669
2001	.120	.173	.111	.595
2002	.207	.153	.128	.512
2003	.156	.172	.107	.565
2004	.090	.108	.094	.707

Socialized Charges - 5

- Large volume of employer turnover in Washington
- 2004 data
 - Firm birth rate – 0.265 – 6th of 51 “states”
 - Successorship rate – 0.027 – 21st of 51 “states”
 - Firm death rate – 0.243 – first among the 51 “states”

Socialized charges - 6

- High turnover linked to high inactive account charges
- Persistent pattern in Washington
 - Earlier analysis for ESD of data from 1997
- Rate year 2004 data – Washington ranked 14th among 47 states in inactive account charges relative to UI total benefits

Socialized charges – 7

SUTA dumping legislation

1. Mandates transfer of experience when there is “substantially” common ownership, management or control
2. Prohibits transfer of experience to secure a new employer rate
3. Penalties when a person “knowingly violates” or “knowingly advises” proscribed actions
4. States must have “meaningful” civil and criminal penalties

Socialized charges - 8

- Steve Massey - USDOL-ETA-OWS
- Carl Camden – Kelly Services Inc.
- David Clegg – NC Emp. Security
- Carol Brassey – Idaho Dept. of Commerce and Labor

Link between WBA calculation and reciprocity rate

- No association across the four types of WBA calculations used in 4 or more states: 1Qtr, 2Qtr, 4Qtr (or annual wage) and average weekly wage

Link between the WBA calculation and the replacement rate

- Cross section regression for 1995-2004
- Strongest determinant of the statewide average replacement rate was the ratio of the maximum weekly benefit to the weekly wage
- Significant negative effect of using annual wage (or 4Qtr) calculation (rather than 1Qtr or 2Qtr)
- Annual wage calculation reduced replacement rate by about 0.03

Link between the replacement rate and benefit duration

- No link in cross-state averages for the period 1995-2004
- A regression explaining average benefit duration for 1995-2004 found:
 - a strong (positive) effect of state unemp. rate
 - a negative effect of employer-filed claims (important in five southern states)
 - a positive effect of uniform benefit duration

Industry Cross-subsidization

- Two broad industries are large net recipients of interindustry cross-subsidies (UI benefits exceed UI taxes)
 - Agriculture
 - Construction
- Most other industries provide subsidies (UI taxes exceed UI benefits)
- Counts of employers by rate class show pattern of cross-subsidies

Rated Employers by Industry - 2005

Industry	Number	No.& Proportion in Rate Class 1	No.&Proportion in Rate Classes 38-40
Agriculture	7,119	1,442 (.203)	1,986 (.279)
Construction	15,748	3,504 (.223)	4,143 (.263)
Manufacturing	6,065	1,348 (.222)	694 (.114)
Wholesale Trade	9,695	4,457 (.460)	852 (.088)
Retail Trade	11,977	4,565 (.381)	589 (.049)
Transport& Util.	4,883	1,460 (.299)	631 (.129)
Finance and R.E.	9,516	4,906 (.516)	477 (.050)
Services	48,572	20,281 (.418)	2,745 (.057)
Private Household	32,462	25,823 (.795)	2,675 (.082)
Total	146,037	67,786 (.464)	14,792 (.101)